

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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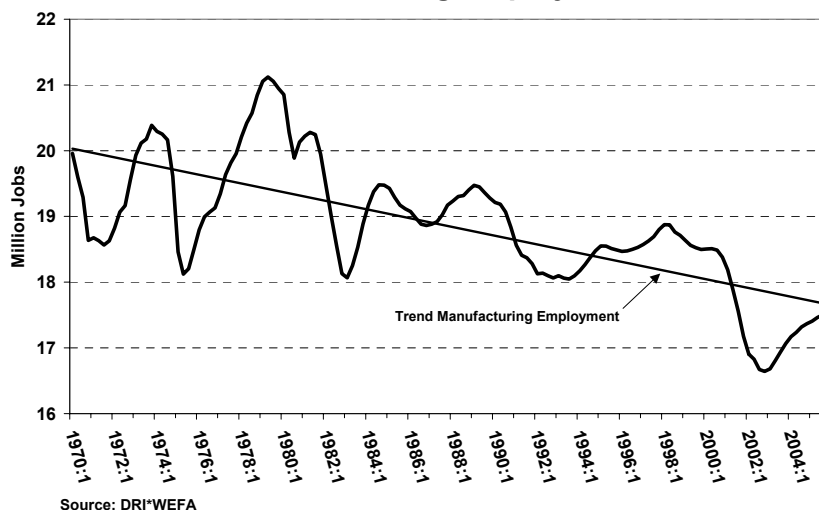
The next time you find yourself in a discussion on the recent recession, you may find a group that vigorously begs to differ. In fact, the difference in opinions may be so profound you may wonder if you are talking about the same recession.

Current data suggests the recent slowdown lasted just one quarter and real output declined 0.3% from peak to trough. Not counting the most recent one, there have been five other recessions over the last three decades. On average, a recession during this period lasted about 11 months and real output fell roughly 2.6%. Given this comparison, it's no wonder some people believe the National Bureau of Economic Research jumped the gun last fall by declaring the country was in a recession that started in April 2001.

There is no doubt, however, that the nation's manufacturing sector has been in the throes of a severe slowdown. It has lasted longer and been deeper than the 1990-91 recession. One way it can be measured is in the number of jobs lost. This is important because it impacts how the recession is felt on a personal level. The chart shows U.S. manufacturing employment over the last 30 years. Manufacturing employment has been falling over time, shown by the downward sloping trend line featured in the graph. Based on this **trend** alone, we can calculate the number of manufacturing jobs fell about 2 million from the first quarter of 1970 to the last quarter of 2001.

A look at **actual** U.S. manufacturing employment numbers for the same period reveals another trait of this sector. Namely, the number of jobs in this sector is highly cyclical. Notice how the actual employment line in the

U.S. Manufacturing Employment



graph moves above and below the trend employment line. Generally, actual employment is above the trend line when the economy expands and below when it contracts. Over the last three decades there have been five major employment peaks and five major troughs. Employment averaged about 18,800 jobs. Manufacturing employment was its highest (21,100) in the second quarter of 1979 and should be its lowest (16,600) in the fourth quarter in 2002. The graph also shows that over time the peaks have been getting lower while the troughs are getting deeper. This is contributing to the downward trend in U.S. manufacturing employment.

By reviewing the employment peaks and troughs, we can show how hard the manufacturing sector has been hit during this recession. The manufacturing sector began shedding jobs in the third quarter of 2000, nearly a year before the U.S. recession officially started. From 2000's second quarter to this year's first quarter, 1.6 million manufacturing jobs have been lost, which is an 8.7% drop. In comparison, total U.S. nonfarm employment has fallen by less than

700,000 (0.4%) over this same period. Unfortunately, counting just manufacturing jobs underestimates the severity of the manufacturing downturn. This is because it has had an impact on other job categories. For example, temporary employees of manufacturing companies have also lost jobs. However, because many of these employees work for temp agencies, they are not counted as manufacturing employees, but as services employees. So their losses are not counted in manufacturing.

As was the case in the last recession, Idaho's economy is expected to fare better than its national counterpart. Gem State manufacturing employment is forecast to decline just 7.0% during its slowdown. In contrast, from its peak to trough, U.S. manufacturing employment should shrink 10%. Not only will the slowdown in Idaho be shallower, it should also be shorter. This is because Idaho was still gaining manufacturing jobs long after its national counterpart was shedding jobs and Idaho is expected to start adding these jobs sooner than the nation. Idaho is expected to lose jobs over the six-quarter period from the first quarter of 2001 to the second quarter of this year. In contrast the current U.S. manufacturing job slump began in the third

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General Fund Update

As of March 30, 2002

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY02 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	940.2	620.9	587.1
Corporate Income Tax	93.4	49.7	43.1
Sales Tax	659.4	494.1	493.7
Product Taxes ¹	20.6	15.5	15.7
Miscellaneous	110.6	57.4	61.3
TOTAL GENERAL FUND²	1,824.2	1,237.6	1,200.9

¹ Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of January 2002

General Fund revenue roared back to life in March, with three of the five major revenue categories coming in higher than expected. Overall, March was \$6.3 million higher than expected for the month, bringing the year-to-date shortfall down by 15%. Strength in the Corporate Income Tax, Sales Tax and Miscellaneous revenue more than offset modest weakness in the Individual Income Tax. This is far and away the best month for General Fund revenue this fiscal year.

Individual Income Tax collections were \$2.0 million lower than expected in March. This is better performance than all but two other months this fiscal year. Relatively light refund payouts in March were offset by continued weakness in both filing payments and withholding collections. For the

month of March, refund payouts were \$10.7 million lower than expected, boosting General Fund revenue by this amount. Unfortunately, filing payments were \$4.7 million lower than expected, withholding collections were \$7.8 million lower than expected.

Corporate Income Tax had a very strong March, with almost half of the year-to-date gap of \$12.5 million erased in just one month. The month's excess of \$5.9 million leaves this revenue category just \$6.5 million lower than expected on a year-to-date basis. Filing payments were \$4.2 million higher than expected, but this included a \$2 million audit payment that represents extraordinary revenue. Estimated payments were exactly on target in March, and refund payouts

were \$1.3 million lower than expected.

Sales Tax collections were \$0.5 million higher than expected in March. This is the first time this fiscal year for back-to-back monthly sales tax strength. March's above-target sales tax revenue is the third best performance of this fiscal year. Sales Tax collections are now within \$0.4 million of the predicted amount for the fiscal year to date.

Product taxes were exactly on target in March, and the Miscellaneous category was \$2.0 million ahead of the predicted amount for March. The Miscellaneous category's strength was dominated by Insurance Premium Tax and miscellaneous agency transfers.